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C O N F I D E N T I A L SECTION 01 OF 03 PARIS 006435

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FROM USMISSION UNESCO PARIS

DEPARTMENT FOR IO/UNESCO, IO/FO, WHA/BSC, L/UNA

E.O. 12958: DECL: 09/21/2016

TAGS: UNESCO SCUL BR

SUBJECT: (U) USUNESCO ? ALARMING NEW INFORMATION ABOUT  
UNESCO?S BRASILIA FIELD OFFICE

REF: PARIS 6225 (notal)

Classified by DCM Andrew Koss, reasons 1.4 (b) and (d).

¶1. (U) This is an action request, please see para. 12.

¶2. (C) SUMMARY. In a private, off-the-record meeting with John Parsons (please protect), the Director of UNESCO?S Internal Oversight Service (IOS), Mission learned this week of a variety of disturbing new allegations, as well as unsettling new facts, that appear not only to widen the scope of irregularities surrounding UNESCO?S Brasilia Field Office (UBO) but also to heighten the stakes for UNESCO?S Director-General, Executive Board Members, and UNESCO?S reputation in how this problem is being addressed. We were informed that the disturbing new information raises a number of concerns, among them the following: the possibility that UNESCO could become a respondent in a Brazilian criminal prosecution; the specter of fraud or money laundering resulting from tens of thousands of alleged UBO travel missions that have been processed through the field office?S travel agency; Brazilian government pressure to blackball IOS Director Parsons and force his resignation; and a deepening appearance of a conflict of interest by UNESCO?S Deputy Director-General (DDG), Marcio Barbosa (a Brazilian national) vis--vis his oversight of the UBO issues.

¶3. (C) SUMMARY (continued). As an Executive Board member, the U.S. faces tough choices about how to respond appropriately and responsibly to the UBO controversy within the broader context of U.S.-Brazil bilateral relations.

¶4. (C) BACKGROUND. Among key issues for the upcoming

session of UNESCO's Executive Board (EB), is item 24 entitled ?Report by the Director-General on the Re-Orientation of the UNESCO Office in Brasilia.? An August 2006 UNESCO external auditor's report suggests that a number of issues remain unresolved. Reftel reported Brazil's Permanent Delegate's recent meeting with Ambassador Oliver to discuss the UBO. The message delivered was that the Brazilian government views that the irregularities attributed to the UBO have now been sufficiently investigated, reported upon and brought under control. Brazil therefore seeks to remove this issue henceforth from further EB monitoring as a future EB agenda item. As reported, this demarche backfired, only strengthening Mission's resolve to get an objective assessment of the current situation regarding that field office. Mission Legal Adviser's subsequent telephone conversation with the external auditor's office affirmed that there remain unanswered questions of potential concern.

**¶5. (C) CIVIL AND POTENTIAL CRIMINAL LIABILITY.** We learned that in addition to a pending civil lawsuit relating to alleged malfeasance at UBO in which UNESCO is a respondent that has asserted immunity from Brazilian legal jurisdiction, prosecutors for the Federal District of Brasilia have informed Parsons that they are contemplating naming UNESCO as a respondent in a directly related criminal prosecution. (Comment: This same information was conveyed privately to the Mission's Legal Adviser by the Deputy External Auditor during a recent phone conversation.) It is not yet clear how such an indictment would be framed, but its issuance would constitute a major embarrassment for UNESCO. Equally worrisome in this regard is Parsons' claim that a Brazilian court recently ruled that another UN organ, the UN Development Program (UNDP), was not entitled to immunity from legal jurisdiction by virtue of its international status. Parsons asserted that the lawsuit against UNDP stems from that organization's alleged failure to pay social security contributions for 200 Brazilian employees. Parsons informed us that UNESCO faces similar lawsuits (see para. 10) and could itself face non-recognition of its immunity as an international organization. (Comment: This recent Brazilian court decision is directly at odds with the assurances provided to the Mission's DCM recently by UNESCO's legal adviser that he is confident UNESCO's immunity would be respected by Brazil's courts.)

**¶6. (C) TRAVEL SERVICE IRREGULARITIES.** Parsons reported that in a period of less than a year, UBO paid some \$60 million for travel services, allegedly involving 30,000 (thirty thousand) travel missions for its employees. We further learned that of these paid travel missions, there has been an average of one thousand cancellations per month. Parsons raised the rhetorical question whether the suspiciously high number of travel missions and cancellations had become a form of ?money laundering.? This observation resonates with the UNESCO external auditor's most recent report noting critically that the agency selected by UBO to handle such travel services was chosen without competitive bidding and moreover that since 2001 UBO has defied the auditor's repeated recommendation that this travel service contract be opened for competitive bidding.

**¶7. (C) GOB EFFORT TO BLACKBALL IOS AND THWART INVESTIGATION.** We learned from Parsons that the GoB has launched a full-scale campaign to smear Parsons' name and reputation to such a degree that he is actively seeking to leave his post by year's end. Three members of his staff have informed him of their imminent departure as well, resulting from their refusal to be targets of a Brazilian vendetta for having competently conducted a needed investigation into palpable irregularities. By year's end, the IOS office could be completely decimated. Parsons asked whether we could help to arrange for an American to replace him (he is a UK national). He proposed that he change positions with the American who currently heads

OSCE's oversight office in Vienna. (Comment: Parsons, who did an excursion tour at the GAO, is a good friend of the U.S. and it would be in our interest to help him find onward employment.)

¶8. (C) AMERICAN SELECTED TO HEAD UBO REJECTED BY BRAZIL. Due to the irregularities that have come to light at UBO, the former UBO director (an Argentine national) was forced to resign and was to have been replaced by a USAID employee, Richard Goughnour, who was selected by UNESCO DG Matsuura. Parsons told us that the Brazilian government has taken the highly unusual step of denying him agreement. It is not clear whether the DG is seeking a reversal of Brasilia's opposition, but for the moment the post is still vacant. In the meantime, Parsons said, the UBO is being run by a temporary director who is not up to the management tasks of restructuring UBO's operations.

¶9. (C) CONTINGENT LIABILITIES. In addition to the lawsuit against UNESCO seeking breach of contract damages arising from the UBO, there are other contingent liabilities relating to lawsuits brought by some 45 contractors who allege that UBO has not made required social security contributions.

¶10. (C) APPARENT CONFLICT OF INTEREST FOR THE DEPUTY DIRECTOR-GENERAL. Parsons reported that DDG Barbosa has so far failed to recuse himself from making senior level decisions regarding the UBO, and, worse, has in fact approved retroactively irregularities cited by the auditors and even visited a previously unauthorized satellite office of the UBO. Parsons also told us that Barbosa unilaterally lowered the overhead charges on extra budgetary funds received by the Sao Paolo office from five to three percent, thereby causing a loss of over \$600,000 to UNESCO.

¶11. (C) COMMENT. The combined effect of these various strands of actual and/or apparent irregularities has cast an even darker cloud over the Brasilia field office. This cloud, if anything, would seem to compel more urgent and closer Executive Board ?due diligence? scrutiny and continued monitoring in the interest of Member States? oversight responsibilities and UNESCO's reputation. It seems increasingly clear that there remain a number of serious matters that need to be fixed at that office, despite the Brazilian government's objections and its preference that they be minimized. At the same time, on other important UNESCO issues (such as the education sector reform initiative being implemented by the ADG for Education, an American), we need Brazil's support in order to achieve important USG goals for UNESCO. We also need to walk a fine line with Barbosa, who has been a great help to the U.S. during the on-going review of the UNESCO science sector. In addition, the effect of a hard-ball approach on the Brasilia office could affect our bilateral relations with Brazil. We thus need to calibrate carefully how we play this issue, bearing in mind that the Executive Board meetings begin on September 26. At the last Executive Board few other states supported us; most of our allies were conveniently out of the room or had gone home when this issue came up late in the evening. The Brazilians and Uruguayans pushed back hard. We would expect the Venezuelans to join them this time.

¶12. (C) ACTION REQUEST. In view of the foregoing discussion, please review previously drafted guidance on this issue and inform Mission soonest how firmly we should push at the EB meeting to uncover the full extent of irregularities at UBO and what recommendations we should put forward and/or support to resolve those concerns in a credible, effective way. At a minimum, the Mission believes that we should support retention of the UBO issue on the EB agenda for further monitoring and reporting at the spring Board meeting and not in one year as the present draft proposes.

OLIVER